

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

EXAMINATION REPORT
OF
CITY OF DELPHI
CARROLL COUNTY, INDIANA
January 1, 2005 to December 31, 2005



FILED
10/13/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janice Roe	06-16-04 to 12-31-07
Mayor	Lee Hoard	01-01-04 to 12-31-07
President of the Board of Public Works	Lee Hoard	01-01-04 to 12-31-07
President of the Common Council	Carolyn K. Pearson	01-01-05 to 12-31-06
Superintendent of Water Utility	Gary Hathaway	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Richard VanSickle	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF DELPHI, CARROLL COUNTY, INDIANA

We have examined the schedule of receipts, disbursements, and cash and investment balances of the City of Delphi (City), for the period of January 1, 2005 to December 31, 2005. The City's management is responsible for the schedule. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the cash transactions of the City for the year ended December 31, 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

September 14, 2006

CITY OF DELPHI
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2005

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 1,168,471	\$ 1,913,434	\$ 1,778,810	\$ 1,303,095
Motor Vehicle Highway	45,086	99,350	76,003	68,433
Local Road and Street	3,589	11,978	323	15,244
Law Enforcement Continuing Education	3,477	1,916	1,078	4,315
Animal Control	868	28	-	896
Special Project	7,506	-	-	7,506
Police Donation	2,614	1,155	174	3,595
Airport Donation	1,733	501	-	2,234
Park Nonreverting	6,194	6,442	49	12,587
Historic Trail Grant	36,489	7,320	-	43,809
Delphi Tri Township Equipment	4,268	11,946	-	16,214
Dare Nonreverting	17	-	-	17
Economic Development Income Tax	118,110	63,389	57,080	124,419
Indoor Recreation	183	-	-	183
Wabash Heritage	1,618	-	-	1,618
Railroad Cleanup	1,045	-	-	1,045
Housing Development	26,012	-	-	26,012
Main Street Nonreverting	2,080	-	-	2,080
Sidewalk Curb Share	2,077	26,438	12,618	15,897
Federal Aviation Authority Grant	31,660	112,377	112,737	31,300
Riley Park Bridge	5,403	25	77	5,351
Federal Emergency Management Grant	16	290,310	290,310	16
Riverboat	19,077	19,011	-	38,088
Delphi Flood Clean Up	1,003	-	-	1,003
Riley Park Boardwalk	-	1,000	-	1,000
Recycling Grant	-	15,000	15,000	-
Cumulative Capital Improvement	7,050	9,320	750	15,620
Cumulative Building and Fire Fighting Equipment	43,000	-	39,052	3,948
Proprietary Funds:				
Water Utility - Operating	83,028	604,726	698,849	(11,095)
Water Utility - Bond and Interest	158,247	210,656	171,589	197,314
Water Utility - Debt Reserve	144,001	27,000	3,365	167,636
Water Utility - Customer Deposit	42,770	7,985	6,952	43,803
Water Utility - Booster Station	2,056	1,600	-	3,656
Wastewater Utility - Operating	75,830	731,692	735,163	72,359
Wastewater Utility - Bond and Interest	22	155,320	154,744	598
Wastewater Utility - Debt Reserve	146,500	13,462	22	159,940
Fiduciary Funds:				
Police Officers' Pension	58,845	16,475	30,005	45,315
Court	1,964	38,840	36,221	4,583
County Court Share	-	4,382	4,382	-
Payroll	6,959	1,086,408	1,077,336	16,031
Totals	\$ 2,258,868	\$ 5,489,486	\$ 5,302,689	\$ 2,445,665

The accompanying notes are an integral part of the schedules.

CITY OF DELPHI
NOTES TO SCHEDULE

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highway and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water and wastewater.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF DELPHI
NOTES TO SCHEDULE
(Continued)

Note 6. Pension Plans

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

2. 1925 Police Officer's Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 38-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF DELPHI
NOTES TO SCHEDULE
(Continued)

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighter's hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF.

Note 7. Long-Term Debt

The City has entered into 2001 refunding bonds for wastewater improvements. The outstanding principal at December 31, 2005, was \$1,070,000. The City has also entered into loans for water improvements, wastewater and water equipment. The outstanding principal at December 31, 2005, was \$2,664,000, \$32,676, and \$8,851, respectively. The City has entered into capital leases for a street sweeper, and park lighting. The outstanding principal at December 31, 2005, was \$6,232 and \$17,984, respectively.

CITY OF DELPHI
EXAMINATION RESULTS AND COMMENTS

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

For the tax year ending 2005, the City did not file the required Indiana Department of Revenue form WH-3.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERPAYMENT COLLECTIONS

In 2005, overpayments of payroll withholdings including penalty and interest of \$8,342.78 were made to the Internal Revenue Service. Subsequently in 2006, the IRS refunded \$7,443.71, which included the penalty and interest and some of the overpaid payroll withholdings. This leaves a net balance of \$899.07 not refunded by the Internal Revenue Service. Evidence was not available for examination to determine if this amount is an overpayment of payroll withholdings or penalties and interest charged by the IRS.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets using Form 211.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DELPHI
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit cash fund recorded on the general ledger. There are no established procedures that require the monthly transactions posted to the General Ledger to be reconciled to the Customer Deposit detail records. The fund balance for the Customer Deposits is not sufficient to meet the obligation of the Customer Deposits payable as detailed in the Customer Deposit detail ledger. The Customer Deposits collected must be maintained in a separate fund, in order to meet the obligation to repay the customers when utility service is terminated.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledger, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were noted:

- (1) Depository reconciliations of the fund balances were incorrect. The variance at year end of \$4,897.25 is attributed to posting errors; however, the specific errors have not been identified. This resulted in the reported record balance being lower than the recorded bank balance.

Indiana Code 5-13-6-1(e) states in part: "all local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

- (2) There were a considerable number of posting errors. These errors included deposits posted twice, checks and receipts not recorded in the proper amounts, and interest posted incorrectly.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

CITY OF DELPHI
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . ."

OVERDRAWN FUND BALANCE

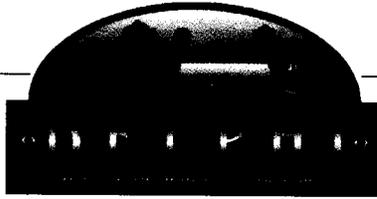
The Water Operating Fund was overdrawn in 2005 by \$11,095.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DELPHI
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2006, with Lee Hoard, Mayor; Carolyn K. Pearson, President of the Common Council; and Janice Roe, Clerk-Treasurer. The official response has been made a part of this report and may be found on page 12.

Mayor
Lee W. Hoard



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www.cityofdelphi.org

September 26, 2006

Indiana State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana, 46204-2765

RE: **2006 Exit Conference
Officials' Response**

To whom it may concern:

We wish to express our appreciation for the auditors who are assigned to audit our City records. We find them to conduct themselves in a very professional manner.

We would like to comment on the following topic that was discussed at our exit conference:

OVERDRAWN FUND BALANCES

The Water Operating Fund was overdrawn in 2005 by \$11,095.

This issue has been corrected and was due in part to switching over to the new computer software program purchased by the Clerk Treasurer's Office.

In reality, there was no deficit; funds had just not been placed in the correct account.

Again, thank you for the professional and necessary job the Indiana State Board of Accounts provides to our City.

Respectfully submitted,

Mayor Lee W. Hoard
City of Delphi

Copy: Ms. Carolyn Pearson, President, Delphi Common Council
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